Report of the
Annual Meeting
April 30, 1976

noranda

ANNUAL MEETING REPORT

This brief report has been prepared for the benefit of shareholders who were unable to attend the Annual Meeting.

The meeting was convened at 2:30 p.m. at the Royal York Hotel, Toronto with about 400 in attendance. Alfred Powis, President of the Company acted as Chairman. There were 17,168,340 shares or 70% of the total issued shares represented either in person or by proxy.

The Annual Report, including the Auditor's Report, was submitted to the meeting.

The following shareholders, who were present, were elected Directors of the Company: James C. Dudley, Louis Hebert, William James, A. J. Little, L. G. Lumbers, T. H. McClelland, D. E. Mitchell, André Monast, Alfred Powis, W. S. Row, W. P. Wilder and A. H. Zimmerman.

Clarkson, Gordon & Co., Chartered Accountants, were reappointed auditors.

Following completion of the formalities of the Meeting, Mr. Powis turned the floor over to a shareholder who read a prepared statement on behalf of the Taskforce on the Churches and Corporate Responsibility, regarding Noranda's potential involvement in a joint venture in Chile.

In reply, Mr. Powis pointed out that Noranda, at this stage, is only involved in a feasibility study which will occupy at least two years before its results are known. He followed this with a short statement on Noranda's corporate position with regard to investment and ventures in foreign countries.

The meeting adjourned at 3:45 p.m.

NORANDA MINES LIMITED

Address to the Shareholders
at the Annual Meeting

Opening Remarks by Alfred Powis

Ladies and Gentlemen:

By any yardstick, 1975 was a very poor year for Noranda, with many of our businesses experiencing the worst economic conditions since the 1930's. In part, this was due to the fact that the business cycles of all of the industrialized areas of the world seemed to have become synchronized.

Many of our products are internationally traded commodities, with the level of demand sensitive to business conditions throughout the world. Through much of the post-war period, the timing of business cycles in the U.S., Europe and Japan has been somewhat different, providing a degree of stability to commodity markets which has now disappeared.

This first became apparent in 1973-74 when the simultaneous booms in the industrialized world resulted in shortages and the appearance of spectacular prosperity for many commodity producers. In some cases, apparent shortages were exacerbated by production problems, fears regarding possible cartel action, inventory accumulation by consumers and speculation.

Inevitably, the aftermath was equally spectacular. Consumption began to decline as all major economies weakened simultaneously, and in many cases demand collapsed as customers began to live on inventories. The results were varying degrees of price weakness, a steep drop in shipments, and a massive transfer of inventories from consumers to producers and commodity exchange warehouses.

The impact of this on Noranda's profitability was, of course, profound, with earnings declining by 68% to $51 million or $2.14 per share. And, as discussed at some length at last year's Annual

Meeting, the impact of inflation is such that, throughout much of Canadian industry, real earnings are nowhere close to the figures being reported. Depreciation charges have become totally inadequate to provide for needed replacements, with the result that earnings from operations in real terms are substantially overstated and overtaxed.

In fact, if Noranda's accounts were properly adjusted for the full impact of inflation, there would have been no real earnings from operations in 1975. On the other hand, Noranda did make a substantial profit in 1975 as the result of the decline in the value of our liabilities. However, we can take no satisfaction from the fact that our only real earnings in 1975 were obtained at the expense of our creditors.

The events of 1975 also combined to place some strain on Noranda's financial structure. The direction, if not the severity, of economic trends was foreseen when plans for 1975 were made, and capital spending was curtailed to the minimum possible levels. Nevertheless, capital expenditures were a record, reflecting the carryover of major projects started in prior years as well as the impact of inflation on the routine expenditures which are essential to maintain capacity and efficiency.

At the same time, the build-up of inventories of many products during the first half of the year absorbed substantial amounts of cash. As a result of this, the reduced cash flow from operations and large capital expenditures and investments, total debt increased very substantially during 1975. While the present short and long term debt structure is tenable, Noranda is sufficiently extended.

As a result, capital expenditures will remain under very close control during 1976, although they will still be at historically high levels due to the impact of inflation and continuation of certain major projects started some time ago. This will not necessarily result in lost opportunities, however, since it is almost impossible to develop substantial new projects that make economic sense under present economic, political and taxation circumstances.

Throughout 1975, dividends were maintained at the increased rate of 50¢ per quarter established in the fourth quarter of 1974. Reported earnings barely covered this payment, and since they were considerably overstated in real terms the dividend actually involved a withdrawal of equity capital from Noranda. Nevertheless, this could be justified for a period because the payout in 1974 was relatively low.

However, the economic recovery which began in the second half of 1975 was more sluggish than had previously been forecast. In the circumstances, the dividend could no longer be prudently maintained at the previous level, and it was reduced by 40% to 30¢ per share during the first quarter of 1976. This was the first reduction in Noranda's dividend in more than 20 years. It was a decision which your directors made with considerable anguish since, along with those on fixed incomes, investors have been the real victims of inflation and deserve special consideration.

In the meanwhile, results to date in 1976 reflect a continuation of unsatisfactory economic conditions affecting many of our activities together with continually mountings costs, certain non-recurring expenses, and a tax system which is both capricious and bizarre. We have also been affected adversely by the high value of the Canadian dollar and a writedown of certain year-end receivables due to the sharp drop in the value of sterling. As a result, earnings during the first quarter were only 16¢ per share, about 80% less than reported for the same period last year. At their meeting this morning, your Directors declared a dividend at the reduced rate established during the previous quarter, 30¢ per share payable June 15th to shareholders of record May 14.

To discuss recent developments and trends in the mining and metallurgical end of Noranda's business, I now turn the meeting over to William James.

Remarks By William James

The past year was a bad one in regard to earnings from the mining and metallurgical operations of the Noranda Group. Mining operations were adversely affected by reduced prices, rising costs, higher taxes, the value of the Canadian dollar and in some cases production curtailments required by market conditions. Throughput at smelting and refining operations was considerably reduced. The final result was a 58% decline in Noranda's earnings from mining and metallurgical operations.

A major disappointment was Gaspe Copper Mines which incurred a loss of $15 million for the year. Even if operations had gone well, it would not be realistic to expect a low-grade mine such as Gaspe to be profitable under conditions that prevailed in 1975, but this loss was clearly excessive. There have been a number of problems, one of the more serious being the precipitation section of the oxide leaching plant which did not work. This resulted in the loss of 6,000 tons of copper production. In addition, there were numerous problems in the concentrators and with equipment availability in the open pit. Vigourous action has been undertaken to solve these problems and, while progress has been slower than hoped, production has improved. The oxide leaching plant should be operating at about half capacity during the second half of this year. A new mining plan has been developed with a lower waste-to-ore ratio and tight controls on costs are in effect. Gaspe's performance should be considerably improved this year, although much higher copper prices will be needed to produce satisfactory results. In the circumstances, a reorganization of Gaspe's corporate affairs is essential, and to facilitate this Noranda has made an offer of $57 per share for the 18,865 shares it does not already own.

The Saskatchewan Government's announcement last year of its plans for the potash industry were also a cause for concern. Having first destroyed the industry's profitability with a complex new tax system, making it financially impossible to develop a new mine, it decided on partial or complete nationalization – allegedly because the industry was not expanding. At

this time it is not clear whether it intends to pay reasonable compensation to the present owners.

Aside from questions of morality, this sort of action is giving Canada something less than a favourable rating in world financial circles, damaging relations with its best friends, and further eroding the fragile confidence of investors in the integrity and fairness of our governments. We understand that Central Canada Potash is near the bottom of the government's priority list for expropriation. Whether this is good or bad, we don't know. But we do know that the mineable reserves at Central Canada Potash are 584 million tons which is sufficient to sustain the operation for the next 145 years and which will probably outlast the next fifteen governments.

The mine expansion at Brunswick has continued on schedule and close to budget, with half of the estimated $51 million cost having been spent or committed to date. The Brunswick ore is extremely difficult from a metallurgical point of view, and recoveries are low. However, continued metallurgical research indicates the possibility of an increase in the recovery of zinc from the ore, and this is now undergoing plant scale testing. In the meanwhile, underground exploration of the orebody is encouraging. After having mined 35 million tons, the known reserves are now larger than ever. After excess inventories of metal and concentrate have been worked off, Brunswick should be a major contributor to Noranda's earnings.

Among other projects, the expansion of the Canadian Electrolytic Zinc plant at Valleyfield has been completed, although because of market conditions the additional capacity is not yet needed. Noranda has acquired a half interest in some 27 million tons of recoverable phosphate rock reserves in Florida which, at the appropriate time, will permit supplying the requirements of the Group's two fertilizer plants in Quebec and New Brunswick. The Tara project in Ireland is on schedule and should reach production next year at a cost within the budgeted figure of $150 million. Financing has been arranged from a consortium of banks and the Export Development Corporation. Kerr Addison's

Agnew Lake uranium deposit will be brought into production next year at a cost of some $37 million.

Noranda Exploration has a group of 200 geologists, engineers and technicians that are as good as any in the world. We have been making large exploration expenditures over a number of years and are due for some success. The importance of the exploration program to the Noranda Group is demonstrated by the fact that the Group as a whole consumes over 60 million tons of ore per year.

Exploration has turned up a small orebody near Revelstoke, B.C. with indicated reserves of 3 million tons grading 4.5% copper and 3.0% zinc. Given reasonable prices and taxes, this should develop into a small but profitable operation. The Koongarra uranium deposit discovered several years ago in Australia can definitely be exploited, and the possibility of obtaining a mining license is being investigated. Noranda Australia is looking for Australian interests willing to purchase an interest in the deposit. Noranda, through its wholly-owned subsidiary, Canadian Hunter, has spent over $45 million on oil and gas exploration and development during the past 2½ years. The estimated rate of return on this venture appears attractive and if the dreams of some of our people come true, it will be much better than that.

The recent economic downturn simply demonstrates once again what the mining industry has always known – that it operates in businesses that are highly cyclical. A very real danger to the industry's future in Canada is the fact that the new tax systems in effect in much of the country only make some vague kind of sense if it is assumed that the prosperity of 1973-74 was permanent. In fact, this was the underlying assumption behind most of the changes which impose high rates in good years with no compensation in bad ones. Prior to the introduction of these new taxes, the mining industry had a rate of return about the same as that for industry generally. Now it can't earn a reasonable rate of return over a complete business cycle. In 1975, tax rates on Noranda Group mining profits ranged from some 42% in New Brunswick to more than 100% in B.C., with a national

average of some 66%. If continued, this would substantially reduce the vitality of one of our few internationally competitive industries, and there were faint signs that this was finally becoming recognized last year. The changes in the federal budget last June, while not decisive, were a move towards accommodation with the provinces. And even the previous B.C. government initiated a study with a view to developing a more logical tax system. Perhaps the tide is beginning to turn, but it has a long way to go.

In the meanwhile, there has been an improving trend in the markets for mine products. As usual, the copper market has been the most spectacular, with the London Metal Exchange price up nearly 40% from the low point reached last year. (The bad news, of course, is that it is still less than half the peak level reached in 1974.) North American producer prices have followed in two steps to the present level of 70¢ U.S. per pound, which again is only a partial recovery towards the levels prevailing in 1974. This recent strength seems to be based more on sentiment than on fundamentals. While demand has improved, world inventories are still at record levels and must be worked down before the price can recover to where it should be.

Zinc prices have held reasonable well, as producers curtailed production sharply in line with demand. U.S. production is at 80% to 90% of capacity, while overseas operating rates are less than 70%. Demand is improving slowly, but high inventory levels must be reduced before operating rates can be increased significantly. However, with the exception of Tara, there is not much new mine capacity in sight and the future remains bright. Lead demand is also improving, and there has been some recovery in the price. Molybdenum avoided the recession as demand increased in energy-related applications, and the price actually rose in 1975. On the other hand, gold has been disappointing and a price below $130 an ounce presents a challenge to continued operation at some mines.

On balance, there has been real improvement in the markets for our mine products, and the worst of the recession is now behind us. It is not expected that the recovery will progress

quickly enough to provide really satisfactory results in 1976, but there should be some improvement. Beyond 1976, we are optimistic.

I now turn the floor over to Adam Zimmerman, who will cover manufacturing and forest products operations.

Remarks By Adam H. Zimmerman

I am a good deal more comfortable standing before you to report the activities under my care now than I would have been a few months ago. Last year, as business evaporated and labour demanded, we seemed to be in some kind of purgatory created by a man named Murphy, whose law says "what can go wrong, will".

Our manufacturing and forest products activities, which employ 21,000 people, are a $400 million investment by Noranda which produced sales of $900 million in 1975. This performance was generally in the range of 60% to 75% of capacity. Prices of copper products declined up to 30%, aluminum and its products up to 40%, and wood products as much as 50%. In many cases our efforts were concentrated on covering our cash costs of production and overall profits were completely unsatisfactory.

Manufacturing earnings were down 42% as a result of a decline in sales and severe cost increases for everything except metals. Three plants were closed permanently and one was mothballed. Severe cost cutting measures were instituted elsewhere. Indeed, your contribution through Noranda to the fight against inflation can be described as heroic. Happily this seems to be recognized in the price control regulations, and we have some room for restoration of margins.

Canada Wire and Cable is principally involved in supplying electric and telephone utilities, building construction and automotive and industrial products manufacturers. Markets were weak in the first quarter, but all of these sectors appear to be enjoying improving health excepting utilities. Canada Wire

has followed a policy of concentrating its operations into highly-productive, medium-sized plants in geographically advantageous locations as part of a process of rationalizing its very large Leaside plant. Another policy has been to participate on a minority basis with local partners in foreign operations through contribution of finances and technology. That this has been highly successful is supported by the fact that about a third of 1976 income will come from these operations.

Noranda Metal Industries, our other copper fabricator, broke even last year and few competitors did as well. NMI is completing two major capital additions – a continuous strip plant in Fergus and a specialty or nuclear tube mill in Arnprior. Both of these plants are well located and will reinforce this subsidiary's position in the forefront of technology in its basic business of metal fabrication. Business is somewhat better, and we expect that a modest profit will be realized by NMI in 1976.

Although our two copper manufacturing companies are in accordance with Canadian public policy to further process our resource products, they are very vulnerable to imports in depressed periods. Statistics show a large increase in imports of wire, cable and brass mill products to Canada in 1974 and 1975.

Wire Rope Industries and Bridon American, the sister participants in the North American wire rope business, had surprisingly good results in 1975, as their main markets for hoisting ropes and prestressed strand stayed firm. The 1976 outlook is for another good year in Canada but for severely competitive conditions in the U.S. where we are new participants. Nevertheless, our faith in our future in the U.S. market is demonstrated by a new program to establish integrated wire drawing facilities and to re-equip the two existing roperies.

Quebec Iron Foundries' basic business is being enhanced this year by the addition of a shredder to the Moncton scrap facilities. This will provide position and new experience in the world of recycling. Grandview's plastic operations which cater mostly to farmers and builders are expected to recover market and profitability during 1976.

Our aluminum business is substantially better. Noranda Aluminum will complete its second 70,000 ton potline in July within the $85 million budget. This coincides with a strengthening market which has permitted liquidation of inventories which had built up to 25,000 tons last September. Improvement in primary aluminum markets has also benefited the Guinean alumina venture.

Norandex, which has been a major weakness in our performance, was completely analyzed and restructured at the year end and is turning around. During 1976 new management combined with a simplified product line and different market targets and practices should liberate some of the cash invested, and at least stop any further losses.

In summary, our earnings from manufacturing during the first quarter were very poor. The outlook is for substantial improvement in the level of activity over the balance of the year, but it is too early to tell how this will affect profits as cost increases are inexorable and severe. We are struggling with over-priced labour, an over-priced dollar, and over-government. Some correction, particularly in relation to the U.S., will have to occur before we are again competitive on an international basis. Nevertheless, we seem generally equipped to stay in the game, at least as long as most Canadian manufacturers.

Of increasing importance to Noranda are our various forest products interests. We operate, directly and indirectly, about 30 basic manufacturing facilities in British Columbia, New Brunswick and Maine in addition to distribution facilities in Alberta, Manitoba, Ontario and Quebec and lumber sales offices in Toronto, London and Tokyo. Our total investment is $116 million in companies employing 11,000 people, and Noranda's pro rata share of 1975 gross revenues exceeded $300 million. This would place us among the ten largest Canadian forest products companies.

This is all very well when times are good, but when they are as bad as in 1975 there is nowhere to hide. The poor 1975 result was due partly to the B.C. strike, but more to appalling lumber

markets. In fact, if we were only to break even on lumber in 1976, last year's earnings from forest products would be doubled. Happily, lumber markets have improved, and our results so far are generally somewhat better than expected.

For the two Northwood companies, 1976 should be a year of pause, with emphasis on improving the effectiveness of existing plant – particularly the New Brunswick particleboard plant. This plant produces what could be described as reconstituted wood using what was previously waste as a raw material. It is a large operation which has to date performed as expected and which should be on a breakeven basis by the end of this year.

British Columbia Forest Products will follow a pattern similar to Northwood in 1976, except that it will participate as manager and 40% owner of a newly announced pulp project at St. Felicien, Quebec. This project, which will be similar in scale to the companies Mackenzie operations, will involve total expenditures of nearly $300 million, of which B.C.F.P.'s investment will be $28 million.

Fraser Companies had a reasonably good year in 1975 considering the circumstances. As a measure of our confidence in this subsidiary, we have recently approved a $91 million conversion and rehabilitation program for the Edmundston pulp operation. This is being financed by existing funds, expected cash flow over the next three years and the proceeds of a $35 million debenture issue to be completed by June.

The forest products outlook is for some firmness in lumber activity, reasonable kraft pulp markets, a very soft sulphite pulp market and generally good business in all our paper and board grades. Barring the unforeseeable, 1976 could be our best yet for forest products earnings.

Now back to Alfred Powis.

Concluding Remarks By Alfred Powis

The cumulative problems faced by the resource industries in Canada over the past few years have made many of us seem a bit paranoid. However, it is now becoming clear that the resource industries were simply the first to feel the cutting edge of an attack on the private sector as a whole.

In recent years, we have become altogether too preoccupied with the redistribution of wealth, to the exclusion of its creation. In the process, government spending has grown to over 40% of Canada's gross national product, and this proportion will continue to increase in 1976 despite so-called restraint. One result is too much consumption and not enough investment, and a rate of inflation that is our most threatening economic, political and social problem. This inflation in turn is destroying personal and corporate savings, increasing friction between various economic groups, and damaging and distorting the intricate mechanisms of the marketplace.

We have not had previous experience in Canada with this kind of inflation, and even in the corporate sector too few of us understand what is actually happening. But the end result is vastly overstated earnings in real terms and confiscation of corporate and personal capital by the tax system. In effect, Canada is now consuming its capital to a dangerous degree.

It is not good enough to claim that inflation is a world-wide phenomenon which really has very little to do with what is happening in Canada. Despite the fact that we have been insulated from the full impact of the world price of oil, the inflation rate has been dangerously above those of many of our major competitors – notably the United States. Clearly, we have been doing something wrong.

An inevitable result has been an economic performance which is seen to be unsatisfactory by all elements of our society. We have achieved the worst of all possible worlds – high inflation plus high unemployment. But this has not led to a repudiation of the policies which caused the problem. Rather than

attacking the underlying causes, we have adopted the discredited remedy of price and incomes controls.

The rationale for the controls is to be found in the statement that we have not been able to make the free market work in Canada. The premise here is that large corporations and unions have achieved so much power that they can insulate themselves from the disciplines of the marketplace. For this reason, it is said that inflation cannot be brought under control with conventional economic tools, and more government involvement will be needed on a permanent basis to protect the public interest.

If anyone has illusions about the ability of corporations to protect themselves against inflation, they have only to look at how their owners, the shareholders, have fared over the past three years. As measured by the Toronto Stock Exchange Industrial Index, the rate of return in 1973-75 was negative even before any adjustment for the impact of inflation on real share values.

The real problem is not with the free market. The problem in Canada is that, with governments absorbing over 40% of our gross national product, market forces do not apply to a large portion of the economy. In fact, persuasive argument can be advanced that these controls only make sense in terms of their application to the public sector, and perhaps this is the real reason for them.

The most serious flaw in the controls program is its lack of any recognition of the need for a reasonable return on existing or new investment. The result – as conceded by a member of the Anti-Inflation Board – is that investment in existing operations will be stifled and new businesses will have a great difficulty in getting started, which seems to be a perverse way to fight inflation.

There is no more important priority in Canada than bringing inflation under control. While we are skeptical about the usefulness of controls, Noranda will do everything possible to live within the letter and spirit of the regulations, and we hope

that cooperation with the program will be broadly based. At the same time, we also hope that the controls will be removed at the earliest possible opportunity. If they really remain in place for three years, the damage to our economy and to the fabric of our society could be severe and permanent.

Rather than controls, increased production and greater efficiency are needed if Canadians are to continue to enjoy a high standard of living. But this requires less current consumption, more savings, and more investment in the productive capacity that creates both jobs and wealth. This will not be achieved without a healthy private sector. It cannot be achieved in the context of self-fulfilling prophesies regarding the failure of the free market, in which the private sector is first handcuffed and then subject to ever greater control because its performance is unsatisfactory. Our energies must be redirected to constructive dialogue on fundamental issues, and away from a corrosive and sterile preoccupation with the threat of long-term government controls.

From Noranda's standpoint, the complexity of the controls program has required a great deal of time and effort to gain an understanding of how it may affect future profitability – particularly if it lasts for three years. In this connection, elimination of the proposed special levy on export profits was a welcome move, and has removed a considerable area of difficulty and uncertainty.

It appears that the prices of most of Noranda's natural resource products sold in the domestic market will be controlled on the basis of 95% of average margins over the 1970-74 period. For mine products, this will clearly permit a considerable recovery from present totally inadequate levels, although probably not to completely satisfactory levels. Certain forest products operations may encounter problems, but the impact on profitability should not be serious as a very high percentage of these products is exported. The greatest difficulty will be in the manufacturing area, where products are largely sold in the domestic market and price rises will be limited to increases in unit costs.

As far as economic conditions are concerned, recovery is now visible in the United States and should be felt soon in Europe and Japan. There is now a better tone in the markets for many resource products and the beginnings of price improvement for some of them. However, the improvement to date is not nearly enough to restore earnings to reasonable levels, nor is it realistic to expect this to happen until surplus inventories have been absorbed. But eventually, prices must rise to levels which will appear very high by historical standards.

This is inevitable because of the incredible escalation in construction and equipment costs as well as the burdens of stricter environmental controls and mounting costs for labour, materials and energy. A reasonable rate of return on new capacity for most resource products is simply impossible at anything close to present price levels, and when present cyclical surpluses are eliminated something has to give.

At last year's Annual Meeting, we stated our belief that we were then going through the worst of the recession in terms of its impact on Noranda's earnings. Quite obviously we were wrong, and earnings went from bad to worse as the year progressed. However, while resource products tend to lag the business cycle, clearly the worst really is now behind us and the outlook is for a gradual recovery in 1976. In addition, new and expanded operations will begin to contribute to earnings late in the year, and weaknesses in certain of our existing operations are being attacked.

Despite this, we do not expect that earnings will recover this year to levels we would consider adequate, as price improvement will be slow for most products and the impact of inflation on costs continues. Nevertheless, results for the balance of the year should be substantially better than those of the first quarter. Beyond 1976, more reasonable prices should begin to prevail and earnings should rise to more satisfactory levels.

The private sector in Canada, and in particular the resource industries, are going through extraordinarily difficult times. We have inflation, depression, economic nationalism, controls,

exchange rate turmoil, a rising tide of anti-business and anti-profit sentiment, a perverse tax system, and national policies based on economic theories of dubious validity.

In the circumstances, it would be easy to become discouraged, but it would be wrong to underestimate the enormous strength and resiliency of our economic system. In a number of areas there are signs that the pendulum is beginning to swing back, and Noranda is in a strong position to benefit from an improved economic and political environment for the private sector in Canada and elsewhere. Thus, despite the present problems, we remain hopeful.

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